

Sobel & Co., LLC Nonprofit Fraud Checklist

According to the Association of Certified Fraud Examiners' 2010 Report to the Nations on Occupational Fraud and Abuse, the average nonprofit organization annually loses approximately 5% of its revenues to fraud. According to the National Center for Charitable Statistics, in 2007, public charities reported over \$1.4 trillion in total revenues, which would project to \$70 billion in fraud losses annually. For a sector that is continually fighting for new revenue sources to meet their missions, this is an unacceptable number.

However, you can do some simple things to detect and prevent fraud in your nonprofit organization. Education about fraud and the signs of fraud is the first step. While the presence of the "red flags" listed below may be perfectly innocent, they should also prompt you to take a second look in certain cases, especially if multiple red flags are present in an employee.

Behavioral Red Flags of Fraud in Employees

- Lives beyond one's means
- Financial difficulties
- Control issues, unwillingness to share duties
- Unusually close association with vendor/customer
- Wheeler-dealer attitude
- Divorce/family problems
- Irritability, suspiciousness or defensiveness
- Addiction problems
- Refusal to take vacations
- Past employment-related problems
- Complained about inadequate pay
- Excessive pressure from within organization
- Past legal problems
- Instability in life circumstances
- Complained about lack of authority

You should also take a look at your organization's operations to identify opportunities for, or signs of, fraudulent behavior. Again, while the presence of these opportunities or signs does not automatically mean something fishy is going on, these circumstances do provide openings for individuals to take advantage of your organization. Closing some of these loopholes can be fairly simple once you identify them.

Organizational Opportunities for Fraud

- No written corporate policies
- Disorganized operations
- Unrecorded transactions/missing records

- Counterfeit, altered or photocopied documents
- Bank accounts not reconciled timely
- Stale items on bank reconciliations
- Significant transactions with related parties
- Unusual financial statement relationships
- Handwritten checks in a computer environment
- Disinterested/inactive board/audit committee